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ABSTRACT

The Office of Inspector General (OIG) has undertaken a number of initiatives for the 6-month period ending September 30, 1996, to help Education Department managers identify and address issues whose successful resolution is critical to the department's fiscal and management integrity. This semiannual report highlights those activities, which are categorized in the areas of reauthorization, regulation, Congressional testimony, postsecondary education, departmental operations, the auditing of quality-improvement initiatives, and statutory federal law enforcement authority. The report also contains a list of incident frequencies under P.L. 95-452 reporting requirements and the following three abstracts: (1) "Significant Audits and Audit-related Activities"; (2) "Significant Prosecutive Actions Resulting from OIG Investigations"; and (3) "Initiatives Conducted in Response to Congressional Requests." Six statistical tables, a glossary of abbreviations, and contact information are included. (LMI)

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U.S. Department of Education

# Office of Inspector General

# Semiannual Report to Congress

No. 33

April 1, 1996 - September 30, 1996

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U.S. Department of Education

Office of Inspector General

# Semiannual Report to Congress

No. 33

April 1, 1996 - September 30, 1996

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

*October 30, 1996*

*Honorable Richard W. Riley*
*Secretary of Education*
*Washington, DC 20202*

*Dear Mr. Secretary:*

*I am pleased to submit this* Semiannual Report *on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending September 30, 1996. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees.*

*In the course of the last several months, the OIG has undertaken or completed significant initiatives that have helped Department managers both identify and address issues whose successful resolution is critical to the Department's fiscal and management integrity. These initiatives have benefited from the active cooperation and assistance of ED managers, which evinces a strong commitment on their part to the efficient, effective and equitable administration of Federal education programs and activities.*

*I look forward to continued progress on these and other critical issues as together we work to achieve our mutually reinforcing goals of educational excellence and equality of educational opportunity for the nation's learners, and program efficiency, effectiveness and integrity for the nation's learners and taxpayers.*

*Sincerely,*

*Thomas R. Bloom*



400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*

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# Inspector General's
# Message to Congress

***Fulfilling the Mission***
***of the Office of Inspector General***

The mission of the Office of Inspector General (OIG) is **to promote the efficient and effective use of taxpayer dollars in support of American education by providing independent and objective assistance to the Congress and the Secretary in assuring continuous improvement in program delivery, effectiveness, and integrity.** This office takes pride in a record of accomplishments and initiatives, highlighted for you in the following pages, that have fulfilled this mission with a program of audits, investigations and other reviews that will help ensure that the Department's programs serve the nation's students and taxpayers with efficiency, effectiveness and accountability.

The OIG places great importance on reauthorization by Congress of programs administered by the Department of Education (ED). Over the course of the last six months, the OIG has met with both congressional and ED staff and officials on issues that will have a significant impact on the effectiveness of the Higher Education Act and the Elementary and Secondary Education Act, which are up for reauthorization in the next few years. In the coming months we expect to devote substantial effort to continuing our work with the Department on issues related to these critical programs, efforts which we believe have already begun to pave the way to increased understanding of the legislation's key provisions and anticipated impact. We would welcome the opportunity to work with Congress on these reauthorization efforts.

We look forward to continuing to work with the Congress and the Department to foster ever greater financial and systemic improvements in federally funded education programs.

Thomas R. Bloom

# Executive Summary:
## Significant Activities and Accomplishments

The Office of Inspector General (OIG) has undertaken a number of initiatives during the period to assist ED managers in implementing their responsibilities under current and impending legislative and regulatory mandates. Highlights of our efforts follow.

## REAUTHORIZATION

As major reauthorizations approach, the OIG is working with ED managers to shape Department legislation for the next century. This period, the Office of Inspector General has undertaken a number of initiatives with that goal in mind.

### *Reauthorization of the Higher Education Act*

This period we met with departmental and congressional staff, and others knowledgeable in the student financial assistance (SFA) programs, to assist us in determining the types of reviews necessary for the OIG to have effective input to the reauthorization of the Higher Education Act in 1998. Many of our ongoing reviews and planned audits in the areas of student loans, contracting, gatekeeping, and oversight will help in assessing whether legislative changes are needed.

### *Reauthorization of the Elementary and Secondary Education Act*

As a result of our earlier work with program managers and staff, state and local officials, and congressional staff, we identified issue areas to support the reauthorization of the Elementary and Secondary Education Act (ESEA) in 1999. This period, following up on that initiative, we began the first in a series of audits designed to assist the Department and Congress in the reauthorization effort.

## REGULATORY ACTIVITIES

The Office of Special Education and Rehabilitative Services is in the process of revising Rehabilitation Act regulations to include controls over state funding of the establishment authority for community rehabilitation programs to address concerns raised in OIG audits of these programs. The audits raised issues with regard to the efficiency of community rehabilitation programs that either do not primarily benefit vocational rehabilitation clients or benefit them at higher costs than alternative systems providing such services.

The revised regulations of the State Vocational Rehabilitation Services program address the concerns raised by the OIG and are expected to require that state agencies serve only those individuals who

are applicants and are eligible under the Vocational Rehabilitation program. The revised regulations are also expected to require that state agencies describe in the state plan the need to establish, develop or improve, as appropriate, a community rehabilitation program to provide services to applicants and eligible individuals.

## CONGRESSIONAL TESTIMONY

The Inspector General testified before the House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunities, on two issues of significant import relative to the Department's SFA programs. The Inspector General's testimony is summarized below. Additional information is provided in Abstract 3, *"Initiatives Conducted in Response to Congressional Requests."*

### OPE management review

At the request of the House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunities, the Inspector General provided testimony regarding the OIG's management review of the Office of Student Financial Assistance Programs. The review focused on the administration for the period of time when the Federal Family Education Loan program and the Federal Direct Student Loan program were separate components of the Office of Postsecondary Education. During the hearing, the Inspector General stressed OIG's recommendation that the Office of Postsecondary Education move forward and implement its plan to select a chief operating officer to head the Office of Student Financial Assistance and administer the multibillion-dollar loan programs. As of the end of the reporting period, no chief operating officer had been named.

### Gatekeeping in the student financial assistance programs

The Inspector General testified before the House Subcommittee on Human Resources and Intergovernmental Relations, Committee on Government Reform and Oversight, about continuing problems with the gatekeeping process for ensuring that only high-quality schools participate in the Federal SFA programs under Title IV of the Higher Education Act.

#### Few have adopted quantifiable and objective performance standards

Focusing on short-term, non-degree-granting, vocational schools, the Inspector General told the Subcommittee that OIG audits found that very few accrediting agencies have adopted quantifiable and objective performance standards for such schools, and that no accrediting agencies used performance standards as enforcement mechanisms to eliminate substandard schools from accreditation and therefore Title IV participation.

Rather, the performance standards that exist are treated as mere goals by the accrediting agencies and by the Department of Education. The result is that students and taxpayers are not always getting their money's worth for the $8.8 billion spent annually on postsecondary vocational training.

#### Legislation of standards recommended

The Inspector General advocated that, with respect to the non-degree-granting, vocational trade schools sector, Congress legislate consis-

tent, measurable, objective standards which schools would have to meet in order to be eligible to participate in the SFA programs, particularly in the areas of job placement and student achievement.

## OIG Efforts in Postsecondary Education

OIG efforts this period in the postsecondary education arena focused on several important areas. Our activities in these areas are highlighted in the pages that follow.

### Direct Loan program audits

This period we initiated a project to assess how well the Direct Loan program is functioning at the school level. We plan to issue a consolidated report based on the audits of 17 Direct Loan schools in the next reporting period. Our report will contain details of problems being experienced by individual schools, as well as problems that may be systemic, with appropriate recommendations for corrective action.

### SFA student eligibility controls

This period we reviewed the adequacy of controls in the Department's systems for screening to assure that only eligible students are awarded student financial assistance (SFA) funds. Our review determined that the Department has not completed an independent security review and formal risk analysis as required by the Office of Management and Budget (OMB), and that existing controls may not prevent data manipulation and the awarding of SFA funds to ineligible students. The report recommended an independent security review along with formal risk analysis and strengthened controls (see Abstract 1, *"Significant Audits and Audit-Related Activities."*)

### Loan consolidation

We continued to find that guaranty agencies are retaining excessive amounts from payoffs on the consolidation of defaulted loans by improperly reporting the consolidations to ED as collections. Under the Department's regulations, guaranty agencies may retain up to 18.5 percent for consolidations, but are allowed to retain 27 percent on collections.

We first identified this condition in 1994 and the Department promptly published guidance in March 1994 to address the above concerns, yet this condition still has not been corrected. This period we issued audit reports on six guaranty agencies recommending that they refund more than $4 million of improperly retained funds (see Abstract 1, *"Significant Audits and Audit-Related Activities."*)

### Federal Family Education Loan program lenders

In the area of the Federal Family Education Loan (FFEL) program, the OIG is continuing to devote significant resources to investigations relating to instances of alleged falsification of loan collection efforts (e.g., due diligence) involving federally guaranteed student loans. Later in this report, we describe the results of our recently concluded investigation of AmSouth Bank, Birmingham, Alabama. In that case, AmSouth agreed to pay ED over $5.7 million in restitution and civil penalties for

falsified collection efforts on guaranteed student loans (see Abstract 2, *"Significant Prosecutive Actions Resulting from OIG Investigations."*)

### *Ongoing investigations involving lenders and servicers*

The OIG has several other ongoing investigations involving lenders and servicers who have engaged in activities similar to AmSouth. Those investigations have the potential to invalidate the reinsurance claims on multimillion-dollar student loan portfolios.

### *Bank charged with falsifying collection histories*

For example, in June 1994 a civil fraud complaint was filed against First Tennessee Bank, Memphis, Tennessee, by the U.S. Department of Justice (*Semiannual Report No. 29*, page 26). The complaint alleged that First Tennessee employees falsified collection histories on student loan default claims totaling about $1.3 million. Since the filing of the complaint in June 1994, the OIG has continued to assist the Department of Justice with discovery responding to a variety of pre-trial motions and trial preparation. This case is currently scheduled for trial in March 1997.

## DEPARTMENTAL OPERATIONS

### *Financial statement audit*

The Government Management Reform Act (GMRA), passed in 1994, mandates agencywide financial statements for fiscal year 1996. The Department of Education elected to produce financial statements for fiscal year 1995 at the Department level, one year ahead of the implementation date set by GMRA. We contracted with an independent public accounting firm to conduct an audit of the FY 1995 consolidated financial statements. Their reports were delivered to the Department in August and included in the Department's first accountability report.

### *Auditors unable to express opinion*

The independent public accountants were unable to express an opinion on the consolidated financial statements primarily because certain amounts related to the FFEL program could not be supported by sufficient and reliable accounting information and certain differences between financial statement amounts and underlying accounting records could not be adequately explained.

### *Corrective action plan in process*

Management agreed with the need to further improve FFEL program data; however, they believe that the reported FFEL program liabilities for loan guarantees are reasonable. Management is analyzing the recommendations to determine the best way to proceed toward achieving the desired results before developing a comprehensive corrective action plan.

### *Reviews of administrative operations*

We are working in partnership with various departmental managers conducting management reviews focused primarily on the Department's administrative operations—systems, processes, policies, and procedures. Reviews are aimed at identifying systemic problems and weaknesses up front and generating solutions for more efficient and better work processes.

## AUDIT QUALITY IMPROVEMENT INITIATIVES

### Revision to single audit requirements

The Single Audit Act Amendments of 1996 were enacted on July 5, 1996. This legislation will affect the audits of thousands of Department of Education grant recipients that are conducted by non-Federal auditors.

In 1993, an interagency team led by OIG staff, under the President's Council on Integrity and Efficiency (PCIE), issued a report, *Study on Improving the Single Audit Process.* Since then, OIG has worked extensively with OMB and the General Accounting Office on revising the legislation and OMB implementing guidance. Virtually all of the recommendations in the PCIE report requiring legislative change have been incorporated in the Amendments.

We believe that the Amendments and implementing OMB guidance will provide for more efficient and effective audit coverage of Department programs.

### Revision to audit guidance for audits of guaranty agencies

This period, we issued revised guidance for non-Federal audits of guaranty agencies. This guidance includes specific audit steps to audit the billings and reports sent to ED by guaranty agencies to assure that they are materially correct. Inadequate audit coverage of these reports has been cited as a material internal control weakness in the 1995 Department-wide financial statement audit and prior financial statement audits of the Federal Family Education Loan program.

### Training initiatives

This period, OIG staff undertook two training initiatives aimed at improving the performance of independent public accountants (IPAs) who audit Department of Education programs.

In cooperation with the American Institute of Certified Public Accountants (AICPA), OIG staff presented a one-day training program for IPAs who audit schools that receive funding under Title IV SFA programs. The training was presented in eight cities.

We are also developing, with the AICPA, a training course for IPAs who perform audits for the U.S. government under the new attestation standards. This course is needed since the standards are relatively new and ED is the only governmental department requiring audits under these standards so far. We are expecting to complete this project in the next reporting period.

### Cooperative audit resolution

As reported in previous *Semiannual Reports*, we have been working with an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. Other offices participating in the CAROI initiative include the Office of Elementary and Secondary Education, the Office of the General Counsel, and the Office of the Chief Financial Officer. The following activities were accomplished during the reporting period as part of this initiative.

### *IASA compliance supplement*

As part of this initiative, the CAROI team revised the compliance supplement for Education programs reauthorized under the Improving America's Schools Act (IASA). This supplement was issued in June 1996 in time for auditors to use during the first audits of programs reauthorized under the IASA.

### *Cooperative audit resolution pilot*

During this period, the CAROI team completed the first cooperative resolution pilot with Florida. As part of a settlement agreement, Florida and Department officials jointly designed a substitute time-distribution system that helped resolve longstanding audit issues in Florida relating to keeping time-distribution records. Florida's substitute system can be adopted by other state and local agencies looking to reduce the burdens of OMB Circular A-87.

### *IASA regional conferences*

Also this period, the CAROI team made presentations to state and local officials at the first of three regional conferences for IASA. The team is participating on a White House task force on flexibility and financing issues that is, in part, considering how the CAROI concept could be used by other Federal agencies.

## STATUTORY FEDERAL LAW ENFORCEMENT AUTHORITY

Much of the investigative work done by OIG special agents is very similar to that of other Federal law enforcement agents who possess statutory Federal law enforcement authority. Historically, ED/OIG agents were at a severe disadvantage that at times put them in danger because they lacked this authority.

### *Full blanket special deputation*

This period, ED/OIG entered into a Memorandum of Understanding (MOU) with the Department of Justice that grants full blanket special deputation authority to special agents of the OIG. The terms of this MOU are similar to the ones contained in the MOUs signed by the seven OIGs that were originally granted such authority in 1995. The terms of the ED/OIG's MOU are effective until September 30, 1997.

### *Intensive training for OIG agents*

In preparation for entering into this MOU, so as to be in full compliance with its provisions, the Education OIG put all its special agents through an intensive two-week refresher training at the Federal Law Enforcement Training Center in Glynco, Georgia. In addition, the OIG has developed internal policies and procedures as guidance and direction for its special agents while operating under this blanket special deputation authority.

# P.L. 95-452 REPORTING REQUIREMENTS


**SECTIONS 5(a)(1) and 5(a)(2) Significant Problems, Abuses and Deficiencies**

- Significant Audits and Audit-related Activities . . . . . 8
- Significant Prosecutive Actions Resulting from OIG Investigations . . . . . 16

**SECTION 5(a)(3) Recommendations Described in Previous *Semiannual Reports* on Which Corrective Action Has Not Been Completed** . . . . . 31

**SECTION 5(a)(4) Matters Referred to Prosecutive Authorities** . . . . . 40

**SECTIONS 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided***

**SECTION 5(a)(6) Listing of Audit Reports**

- ED/OIG Reports on Education Department Programs and Activities . . . . . 33

**SECTION 5(a)(7) Summary of Significant Audits**

- Significant Audits and Audit-related Activities . . . . . 8

**SECTION 5(a)(8) Audit Reports Containing Questioned Costs**

- Inspector General Issued Reports with Questioned Costs . . . . . 35

**SECTION 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use**

- Inspector General Issued Reports with Recommendations for Better Use of Funds . . . . . 36

**SECTION 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period**

- Unresolved Reports Issued Prior to April 1, 1996 . . . . . 37

**SECTION 5(a)(11) Significant Revised Management Decisions***

**SECTION 5(a)(12) Significant Management Decisions with Which OIG Disagreed***


*We have no instances to report.

Abstract 1

# SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

## (April 1, 1996 - September 30, 1996)

NOTE: The amounts reported by auditors for the reports described below are subject to further review and final determination by Department officials.

## ★ Elementary, Secondary and Other Education Programs ★

### "The Tennessee Division of Rehabilitation Services Should Improve Its Administration of Establishment Projects"

**ACN 04-50201 September 27, 1996**

Our audit of the Vocational Rehabilitation program in Tennessee disclosed that about $2.8 million of the $10.8 million spent in 1994 for establishment projects could have been used more effectively and efficiently resulting in services for up to an adklitional 1,400 eligible vocational rehabilitation clients. Since the State Legislature has not always appropriated sufficient funds, the Division of Rehabilitation Services has used establishment projects to meet matching requirements. Establishment grants establish, develop or improve community rehabilitation programs. The report recommends recovering $367,131 for one establishment project that was not meeting project goals.

□ □ □

### "The Ohio Rehabilitation Services Commission's Use of Establishment Projects As a Source of Third Party Funding to Meet Federal Matching Requirements May Not Be the Most Efficient and Effective Method of Delivering Services"

**ACN 04-60004 September 27, 1996**

Our audit of the Vocational Rehabilitation program in Ohio disclosed that in 1994, the Rehabilitation Services Commission used about $3.3 million in Federal funds to obtain $850,000 in third-party funding through establishment projects. These funds were needed to meet Federal match requirements because the State legislature historically has not appropriated sufficient funds.

The report notes that using Federal funds for establishment projects to attract third-party funding may not be the best use of funds because these projects were not always cost effective and some establishment projects may not continue. The report notes that Ohio has taken steps to increase the effectiveness and efficiency of its services. The report recommends that ED monitor these efforts to ensure that these efforts lead to improved services.

□ □ □

### "The Decline in the Success of California's Vocational Rehabilitation Program Cannot Be Attributed to the Rehabilitation Act Amendments of 1992"

**ACN 09-53005 July 31, 1996**

Our audit disclosed that, since October 1988, the California State Department of Rehabilitation has experienced a long-term drop in its success rate for rehabilitating individuals with disabilities. Because the success rate dropped every year for six straight years, we concluded that the Rehabilitation Amendments of 1992 were not a primary cause of that lowered success.

Our audit included a comparison of the success rates of the six largest States in terms of Vocational Rehabilitation funding. As of the end of fiscal year 1995, Texas had the highest success rate and California had the lowest. We are currently reviewing differences in the Texas and California programs in the hope that we can develop ways to improve both California and other State programs.

## ★ Student Financial Assistance Activities ★

### "Review of Post-Default Consolidation Loans and Reserve Fund Uses of The Georgia Higher Education Assistance Corporation"

**ACN 04-60002 August 2, 1996**

Our review found that the Georgia Higher Education Assistance Corporation (GHEAC):

- improperly reported defaulted loans paid off through loan consolidation and retained excessive collection costs;
- improperly allocated costs in State fiscal year 1995, resulting in improper charges to the guaranty reserve fund; and
- did not fully implement its State fiscal year 1996 cost allocation plan.

As a result of GHEAC's comments and actions taken on the draft report, our final report recommended that GHEAC review all defaulted loans paid off through consolidation on or after March 29, 1994, and determine if actual collection costs were at least equal to 18.5 percent. If actual costs were less than 18.5 percent and GHEAC retained 18.5 percent, the difference should be remitted to the Department.

□ □ □

### "Audit of Tennessee Student Assistance Corporation's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program"

**ACN 04-60003 June 21, 1996**

Our audit disclosed that the Tennessee Student Assistance Corporation (TSAC) retained monies in excess of the amount allowed to cover collection costs on Federal Consolidated Loan (FCL) payments between April 1993 and September 1995. This occurred because TSAC reported FCL payments as collection payments. We recommended that the Office of Postsecondary Education instruct TSAC to:

- refund to ED $1,017,470 of retained FCL payments;
- compute and refund the amount of excess FCL funds retained since October 1, 1995;
- report the payments received in the consolidation of defaulted loans on its monthly claims report; and
- improve its record-keeping capabilities to adequately document its verification of FCL amounts.



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TSAC disagreed with the finding because it believes the report is based on a misreading of the Higher Education Act and regulations. Under the Department's regulations, guaranty agencies may retain up to 18.5 percent for consolidations, but are allowed to retain 27 percent on collections.

□ □ □

## "Audit of United Student Aid Funds, Inc.'s Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program"

**ACN 05-50009 May 8, 1996**

Our audit disclosed that United Student Aid Funds, Inc. (USAF) reported payments received as payoffs from the consolidation of defaulted loans as collections from borrowers and retained amounts in excess of those allowed. We recommended that the Office of Postsecondary Education instruct USAF to:

- refund to ED $2.7 million of retained FCL payments for January 1, 1993 to March 28, 1994;
- refund to ED $16.4 million for March 29, 1994 to June 30, 1995, or identify the actual amount of collection costs included in the payoff amount received and reported and refund the amount retained that exceeds the allowed collection costs; and
- report defaulted loans paid off by consolidation in accordance with the prescribed format included in Dear Colleague Letter 95-G-286.

USAF disagreed with the finding because it believes the report is based on opinions and a misreading of the Higher Education Act and regulations. Under the Department's regulations, guaranty agencies may retain up to 18.5 percent for consolidations, but are allowed to retain 27 percent on collections.

□ □ □

## "Audit of Delaware Higher Education Loan Program's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program""

**ACN 05-60007 May 23, 1996**

Our audit disclosed that the Delaware Higher Education Loan program (Delaware) reported payments received as payoffs from the consolidation of defaulted loans as collections from borrowers and retained amounts in excess of those allowed. We recommended that the Office of Postsecondary Education (OPE) instruct Delaware to:

- refund to ED $30,265 of retained FCL payments for January 1, 1993 to March 28, 1994;
- refund to ED $109,008 for March 29, 1994 to June 30, 1995, or identify the actual amount of collection costs included in the payoff amount received and reported and refund the amount retained that exceeds the allowed collection costs; and
- report defaulted loans paid off by consolidation in accordance with the prescribed format included in Dear Colleague Letter 95-G-286.

A Delaware official stated that Delaware does not object to refunding the $139,273 in questioned costs to the Department.

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## "Audit of Finance Authority of Maine's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program"

**ACN 05-60008 May 23, 1996**

Our audit disclosed that Maine reported payments received as payoffs from the consolidation of defaulted loans as collections from borrowers and retained amounts in excess of those allowed. We recommended that OPE instruct Maine to:

- refund to ED $143,978 of retained FCL payments for January 1, 1993 to March 28, 1994;
- refund to ED $426,812 for March 29, 1994 to June 30, 1995, or identify the actual amount of collection costs included in the payoff amount received and reported and refund the amount retained that exceeds the allowed collections costs: and
- report defaulted loans paid off by consoliklation in accordance with the prescribed format included in Dear Colleague Letter 95-G-286.

Maine objected to the conclusions of the report because it believes that the assessment was based on faulty methodology and that the conclusions are based on opinions or misinterpretations of the Higher Education Act and regulations.

□ □ □

## "Audit of Iowa College Student Aid Commission's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program"

**ACN 05-60011 June 24, 1996**

Our audit disclosed that the Iowa College Student Aid Commission (Iowa) reported payments received as payoffs from the consolidation of defaulted loans as collections from borrowers and retained amounts in excess of those allowed. We recommended that OPE instruct Iowa to:

- refund to ED $114,614 of retained FCL payments from January 1, 1993 through March 28, 1994;
- refund to ED $901,241 for March 29, 1994 to June 30, 1995, or identify the actual amount of collection costs included in the payoff amount received and reported, and refund the amount retained that exceeded the allowed collection costs; and
- report defaulted loans paid off by consolidation in accordance with the prescribed format included in Dear Colleague Letter 95-G-286.

In its response, Iowa stated that it does not believe the Higher Education Act or regulations obligate it to repay the amounts cited in the audit report. Under the Department's regulations, guaranty agencies may retain up to 18.5 percent for consolidations, but are allowed to retain 27 percent on collections.

□ □ □

## "Audit of Colorado Student Loan Program's Administration and Reporting of Defaulted Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program "

**ACN 07-50004 May 31, 1996**

Our audit disclosed that the Colorado Student Loan Program (CSLP) certified as eligible, defaulted student loans that were ineligible for consolidation. The borrowers had not met CSLP's policy for satisfactory repayment arrangement when the loans were certified. CSLP's management attributed the improper certifications to employees' overzealous desire to attain collection goals set by management. Another contributing factor was the lack of adequate internal controls, combined with poor management practices. CSLP consolidated $587,067 in defaulted loans that were not eligible for consolidation and retained $162,032, approximately 27 percent of the consolidation amount, as its due proceeds.

CSLP did not agree with the findings and recommendations included in the audit report. The CSLP response stated that the loans were eligible for consolidation because during the time period in question, neither Federal law nor regulation defined satisfactory repayment arrangements. CSLP stated that the cited infractions were exceptions to its unofficial policy, which should not be given the same weight as law or regulation.

This period, CSLP and the Department entered into a settlement agreement in which CSLP agreed to pay $187,000 to the Department.

□ □ □

## "Audit of the Direct Loan Program Administered by Bauder College - Atlanta, Georgia "

**ACN 04-60146 September 24, 1996**

The audit disclosed that the school had generally administered the Direct Loan program and accounted for and expended Direct Loan program funds in accordance with applicable program requirements. However, the auditors identified the following five weaknesses at the school:

- Some excess cash existed.
- The school has not received acknowledgments of ED's acceptance of submitted Student Status Confirmation Report files.
- School records indicated disbursement and adjustment/cancellation date discrepancies.
- School records indicated late reconciliations with ED's servicer, AFSA.
- Security issues were identified with the school's electronic data transmission system (FEEDS).

The institution has taken steps to correct the weaknesses identified above, although we still recommend that ED require Bauder College to continue or implement certain procedural controls. These controls involve the disbursement of funds and return of excess cash, the generation of Student Status Confirmation Reports, the review of loan origination records, student account ledgers, and loan statuses, the correction of software problems, and the security and recovery of data.

□ □ □

## "The Electronic Data Exchange: A Security Review is Needed"

**ACN 06-50010 August 19, 1996**

Our audit disclosed that the Department had not obtained the required independent security review and formal risk analysis of the Electronic Data Exchange. Revised OMB Circular A-130 requires an independent review of computer security every three years. The Office of Management and Budget recommends that a risk-based approach be used. Existing



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controls might not prevent an individual or group of individuals from manipulating data on the Electronic Data Exchange and awarding a Federal Pell grant for an ineligible student.

We recommended that the Department take a risk-based approach to assess and manage risk and develop adequate security on the Electronic Data Exchange.

The Department generally agreed with the recommendation and has started the process of engaging an independent review of security controls.

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## "Cannella School of Hair Design, Chicago, Illinois, Audit of Administration of Student Financial Assistance Programs"

**ACN 05-60003 August 16, 1996**

Our audit disclosed that the Cannella School of Hair Design, Incorporated (Cannella), a chain of cosmetology schools, did not comply with all institutional eligibility requirements or meet the standards of administrative capability contained in the Code of Federal Regulations, and therefore, all Cannella schools are ineligible to participate in the SFA programs authorized by Title IV of the Higher Education Act of 1965, as amended. The Department provided Cannella SFA funds totaling $4,324,440 between July 1, 1994 and March 8, 1996. The Department also provided Cannella an additional $84,180 between May 11, 1994 and June 30, 1994 for two main campuses and one branch which became ineligible on May 11, 1994.

We recommended that the Office of Postsecondary Education terminate Cannella's program participation agreements and instruct Cannella to return $4,408,620 and all refunds received after March 8, 1996. No procedural recommendations were made.

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## "The Department Should Continue Its Efforts to Improve the Accuracy of Its Student Loan Database"

**ACN 09-38058 June 14, 1996**

Our audit found that a significant number of FFEL program loans that were incorrectly recorded in the Tape Dump remained incorrect in the National Student Loan Data System (NSLDS). Inaccurate loan data limits ED's ability to use its database to determine the reasonableness of lender billings for interest and special allowance. It also impairs ED's ability to monitor borrowers. Further, inaccurate loan data submitted by guaranty agencies resulted in the overpayment of loan reinsurance amounts.

In its response to our draft report, the Office of Postsecondary Education (OPE) stated that it has taken steps to improve the NSLDS and has plans for additional improvements. OPE agreed with most of our recommendations.

# ★ Departmental Management Activities ★

**"The Report of Independent Accountants on the U.S. Department of Education Fiscal Year 1995 Department-wide Financial Statements"**

**ACN 17-40403 August 16, 1996**

The OIG is required by the Chief Financial Officers Act of 1990 (CFO Act) to have an audit performed of certain program financial statements. The Department chose to meet their fiscal year 1995 CFO Act reporting requirements with early implementation of the Government Management Reform Act and the preparation of a Department-wide annual financial statement. The final audit reports were released to the Department for inclusion in the 1995 Accountability Report. Distribution of the Accountability Report will constitute the official distribution of these audit reports.

The report of the independent public accountants of Price Waterhouse, LLP, indicated they were not able to express an opinion on the consolidated financial statements primarily because certain amounts related to the Federal Family Education Loan (FFEL) program reported in Education's consolidated financial statements could not be supported by sufficient and reliable accounting information and certain differences between financial statement amounts and underlying accounting records could not be adequately explained.

The report on internal controls disclosed material weaknesses and reportable conditions in the internal control structure and its operation. The material weaknesses relate to the following issue areas:

- FFEL Program - Liability Estimate for Loan Guarantees;
- FFEL Program - Guaranty Agency Oversight;
- FFEL Program - Lender Oversight; and
- Cash - Timely Reconciliations.

The reportable conditions relate to the following areas:

- Pell and Federal Work-Study Grants - Institutional Audits; and
- PAS/PMS Systems - Disaster Recovery and Security Concerns.

The report on compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported.

While management agrees with the need to further improve FFEL program data, they believe that the reported FFEL program liability for loan guarantees is reasonable. Management is analyzing the recommendations to determine the best way to proceed toward achieving the desired results before developing a comprehensive corrective action plan.

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## Cooperative Audit Resolution and Oversight Initiative

As reported in *Semiannual Report #32*, CAROI is an intradepartmental team assisted by three States (Florida, Mississippi, and Washington). The goal is to improve education programs and student performance at State and local levels through better use of audits, monitoring and technical assistance. To accomplish this goal, the CAROI team developed four strategies, which are described below along with the team's accomplishments in each area during the reporting period.

### #1: CREATE AND MAINTAIN DIALOGUE WITH STATES

OBJECTIVE: Work with key parties to address State concerns, remove obstacles to improved program performance, foster new cooperative methods of audit resolution, and avoid recurrence of violations.

ACCOMPLISHMENTS: The CAROI team made presentations to State and local officials at the first of three regional conferences for the Improving America's Schools Act. The CAROI team is also participating on a White House task force on flexibility and financing issues that is, in part, considering how the CAROI team concept could be used by other Federal agencies.

### #2: WORK WITH STATES TO RESOLVE OPEN AUDITS OR AUDITS UNDER APPEAL

OBJECTIVE: Work with States to resolve audits from periods covered under prior legislation in a manner that is more consistent with the Improving America's Schools Act, the Goals 2000: Educate America Act, and the School-to-Work Opportunities Act.

ACCOMPLISHMENTS: The first cooperative audit resolution pilot was completed. As part of a settlement agreement with Florida, Florida and Department officials jointly designed a substitute time distribution system that helped to resolve longstanding audit issues in Florida relating to keeping time distribution records. Florida's substitute system can be adopted by other State and local agencies looking to reduce the burdens of OMB Circular A-87.

### #3: IMPROVE THE SINGLE AUDIT PROCESS

OBJECTIVE: Ensure that Single Audits focus on the most important issues and concerns in Department of Education programs; and revise the Office of Management and Budget's Compliance Supplement for Education Programs for programs authorized under the Elementary and Secondary Education Act to reflect new flexibility in a manner consistent with new education legislation.

ACCOMPLISHMENTS: The revised compliance supplement for Education programs reauthorized under IASA was issued on June 21, 1996 in time for auditors to refer to it during the first audits of programs authorized under the IASA.

### #4: COORDINATE AUDITS, MONITORING, AND TECHNICAL ASSISTANCE

OBJECTIVE: Improve program performance through better coordination of audits, Federal monitoring, and Federal technical assistance, while encouraging creativity and flexibility at the State and local level.

ACCOMPLISHMENTS: The CAROI team worked with members of the OESE on integrated reviews of State Educational agencies.

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## Field Pricing Support Reviews or Preawards

During this period, the OIG performed 14 field pricing support reviews or preaward reviews of contract proposals. Our reviews covered contract proposals totaling $2.2 billion for Regional Educational Laboratories, Direct Loan services, and assistance in the review and management of discretionary grant applications. The work was performed to assist the Department's Grants and Contracts Service (GCS) in negotiating contracts; the scope of each review was defined on a case-by-case basis to conform to the precise needs of GCS.

In general, the reviews included determining whether costs proposed by prospective contractors are reasonable, allowable and allocable as set forth under the Department's cost principles, and evaluating the prospective contractor's accounting system. During this period, these reviews identified unsupported costs caused by excessive labor rates and consultant fees. Because a vendor's cost/price proposal may be revised one or more times before award of the contract, the OIG does not track the unsupported cost identified in these reviews.

**Abstract 2**

# SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

**(April 1, 1996 – September 30, 1996)**

## ★ School Owners and Officials ★

**Chicago Institute of Technology**

*Chicago, Illinois*

**EARLE CIAGLIA, president and co-owner**

**EDWIN CIAGLIA, vice-president and co-owner**

**DONALD DESMOND, chief financial officer**

Earle Ciaglia, president and co-owner of CIT, and Edwin Ciaglia, vice-president and co-owner of CIT, pleaded guilty in Federal court in the Northern District of Illinois. Earle Ciaglia pleaded guilty to one count of bank fraud and one count of conspiracy for his involvement in the scheme to defraud the Department of Education, financial institutions, students and creditors of approximately $3.4 million as charged in the indictment. Edwin Ciaglia pleaded guilty to one count of bank fraud and one count of conspiracy for his involvement in the scheme as charged. The plea agreements, per Federal sentencing guidelines, call for Earle Ciaglia and Edwin Ciaglia to serve from 63 to 78 months in Federal prison. Sentencing is scheduled for January 14, 1997.

The above individuals along with Donald Desmond, chief financial officer, were previously indicted by a Federal grand jury in the Northern District of Illinois. The 25-count indictment charged the three former top officers of the medical and dental assistance training school with directing a scheme to defraud the Department of Education, financial institutions, students, and creditors of approximately $3.4 million during the years leading up to and continuing after the school's closing. The scheme involved the fraudulent receipt and retention of student grants and loans, bank fraud, and bankruptcy fraud.

According to the indictment, CIT systematically falsified records relating to student eligibility for financial aid and records essential to CIT's ability to maintain its accreditation. CIT enrolled students through telemarketing, visits to unemployment offices, and door-to-door canvassing, and allegedly paid those individuals stipends to attend the school. When students withdrew or dropped out of school, CIT allegedly failed to refund unearned portions of grants and loans to program accounts or lenders. CIT obstructed auditors and reviewers sent to determine whether the school was in compliance with the federal program regulations.

In addition, the indictment alleged that the officers obtained $300,000 in bank loans through fraudulent pretenses and engaged in a "kiting" activity involving more than $10,000,000 in checks, with a bank losing more than $500,000 in the scheme. Further, the officers filed falsified bankruptcy petitions to try and force the Education Department to pay out on a false $1,900,000 claim filed by CIT.

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## Northeast Institute of Education

*Scranton, Pennsylvania*

**GREGORY WALKER, chief executive officer**

Gregory Walker pled guilty to three felony counts as follows: fraud involving education programs, theft concerning programs receiving Federal funds, and bank fraud (non-ED issue). Our investigation developed evidence that Walker failed to refund student credit balances and illegally received Title IV funds after the school's March 1994 reinstatement with ED. In violation of the reinstatement terms, Walker continued his involvement in fiscal and financial aid matters at the school and the school illegally received about $574,000 in Title IV funds.

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## Programming and Systems, Incorporated

*Cleveland, Ohio*

**IRWIN MAUTNER, chairman and chief executive officer**

**RONALD SUNDICK, national financial aid director**

A Federal grand jury in Cleveland, Ohio returned a three-count indictment against Irwin Mautner, Ronald Sundick, and Programming and Systems, Incorporated (PSI). PSI was a publicly traded corporation that owned and operated proprietary schools in Ohio, New York, Michigan, Indiana, Florida, North Carolina, Pennsylvania, Maryland, and Washington, D.C. Mautner was chairman and chief executive officer of PSI and Sundick was the corporate national financial aid director. The three-count indictment, which charged the defendants with mail fraud, conspiracy and false statements, alleged that they had engaged in a scheme to defraud the Department by engaging in improper recruiting practices and deceiving the schools' accrediting agency by misrepresenting one of its schools' high withdrawal rates in order to maintain eligibility for Title IV funds. During the time period charged in the indictment, the schools received in excess of $140 million of Title IV funds.

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## Business Careers, Incorporated

D.B.A. ALLIED SCHOOLS OF PUERTO RICO

*Puerto Rico*

Business Careers, Incorporated, d.b.a. Allied Schools of Puerto Rico, pled guilty to a one-felony-count information in U.S. District Court, San Juan, Puerto Rico. The information charged the corporation with unlawfully converting to its own use $180,000 in Pell Grant funds. The corporation drew down Pell Grant funds in excess of student needs, and subsequently reported those funds as Pell Grant expenditures on quarterly reports to the Department of Education. Investigation revealed that $180,000 of the funds had been converted to personal use by the school's president.

As part of the plea agreement, the corporation made restitution of $180,000 to the Department. Allied Schools was a proprietary institution offering instruction in the areas of electronics, travel, tourism, and computer skills. In 1995 Allied was terminated from Title IV participation.

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## Ron Thomas Schools of Cosmetology and Barbering

*Baltimore, Maryland*

**RON THOMAS and VON THOMAS**

A Federal grand jury for the District of Maryland issued a nine-count indictment charging Von Thomas and Ron Thomas with wire fraud and aiding and abetting. The Thomases owned and operated three Ron Thomas Schools of Cosmetology and Barbering (RTSC) in Baltimore, Maryland. The indictment alleges that from June 1991 through May 1995, the Thomases and RTSC employees defrauded the Department by falsifying documents and records to fraudulently obtain student financial aid funds.

According to the indictment, the Thomases falsified and caused and directed RTSC employees to falsify student attendance records and academic performance records, including punching student time cards, adding hours to student attendance, and manufacturing student examinations and grades, for students who never attended or who attended only briefly. The indictment states that the reason these records were falsified was either to avoid making a refund to the Department of Education and/or to obtain additional Pell Grant disbursements. The indictment also alleges that the Thomases falsified and directed RTSC employees to falsify and fabricate ability-to-benefit admissions examinations, and to falsify and fabricate student documents such as high school diplomas and transcripts, Social Security cards and driver's licenses.

More than five hundred student admissions, financial aid, academic, attendance and personal records were fraudulently altered, falsified or manufactured at RTSC as part of the fraud scheme, and the total amount of Federal student aid received by the schools as a result of the scheme was well in excess of $3 million dollars.

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## Pat Goins Beauty School

*Bossier City and Shreveport, Louisiana*

**PAT GOINS, president**

Pat Goins, president of Pat Goins of Bossier, Incorporated, entered a plea of guilty on behalf of the corporation to one count of wire fraud, in Federal District Court, Western District of Louisiana, Shreveport, Louisiana. The plea, the result of an earlier plea agreement and one-count information filed on May 31, 1996, involved the falsification of a general equivalency degree (GED) for an ineligible student and the subsequent draw of Pell Grant funds.

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## Pikeville College

*Pikeville, Kentucky*

**BOBBIE G. PRICE, director of financial affairs**

Bobbie G. Price was sentenced in the Eastern District of Kentucky to 12 months incarceration, 24 months probation, and was ordered to pay restitution totaling $219,961 after entering a plea of guilty to one count of student financial assistance fraud. The case was initiated based upon a referral by an attorney representing Pikeville College. The attorney advised that Price had falsified several federally guaranteed student loan applications between September 1992 and November 1995. A subsequent OIG/FBI investigation revealed that Price had obtained approximately $223,000 in fraudulent student loan proceeds by using seven different false names and Social Security numbers. In addition, Price obtained several loans under his own name.

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## Valerie Carr

SAWYER COLLEGE

*Hammond, Indiana*

Valerie Carr was charged in a criminal information with embezzling SFA funds totaling $468,976. An OIG investigation disclosed that during April 1992, Carr, a business office employee at Sawyer College who was charged with the responsibility of receiving and depositing checks, began embezzling student financial aid checks. It was discovered that the SFA funds received by the college were applied to the student accounts, but were not deposited to the college's account. Until about December 1994, Carr continued to cash various student financial aid checks, keeping the proceeds for her own use.

Carr agreed to plead guilty to the information charging her with embezzlement of $468,976 in student financial aid funds.

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## United Academies of Cosmetology

*Chicago, Illinois*

**PAUL SCARDINO, owner**

**SALVATORE SCARDINO, owner**

**DIANE SCARDINO, secretary and manager**

**JOSEPH ROBERTS, JR., general manager**

A Federal grand jury returned a 54-count indictment against the owners, secretary, general manager, recruiters, financial aid officers and a school manager of two for-profit cosmetology schools that were part of the United Academies of Cosmetology chain: Riviera School of Beauty Culture and MidAmerica Beauty School. The indictment is the result of a criminal investigation by the Office of Inspector General and the Postal Inspection Service. The owners are charged with wire fraud, student financial assistance fraud, and engaging in monetary transactions in criminally derived property. The indictment also seeks criminal forfeiture of numerous real properties, cash, securities and vehicles of the school owners which they derived from the proceeds of the alleged wire fraud and illegal monetary transactions.

The indictment alleges a scheme to defraud whereby the defendants obtained in excess of $1.3 million in Pell Grant funds for persons who were not in fact students and did not attend class, and therefore were not eligible to receive the funds. In some cases, the purported students came to the schools only for an "orientation" during which they filled out student financial aid paperwork and received a cosmetology kit, but during which no class instruction was given. In many cases, the purported students never came to the schools at all; some of them never even heard of the schools. Investigators found evidence that employees and commissioned recruiters falsified high school diplomas, GEDs, student aid reports and attendance records as part of the scheme.

The investigation disclosed that the schools received the maximum first disbursement of Pell Grant funds - $1,200 - for each of the sham students by including in the Pell Grant calculation a grossly inflated charge for the cosmetology kits that bore no relation to the cost of the kits. The owners used commissioned recruiters to target economically disadvantaged areas, drug rehabilitation clinics and unemployment offices to recruit purported students.

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## International Business College

*El Paso, Texas*

This period International Business College (IBC) entered into a compromise settlement agreement with the Department of Education in which IBC agreed to repay the Department $178,750 for losses incurred as a result of fraudulently disbursed Stafford loans during the period 1985 through 1987. In addition, IBC agreed to pay a $5,000 administrative fine resulting from a prior program review.

Evidence developed during an OIG investigation served as the basis for the settlement. The OIG investigation established that a former finance director for IBC, Charles McCollum, had fraudulently obtained more than $733,000 in guaranteed student loans by creating bogus identities for non-existent borrowers. Subsequent to McCollum's 1992 conviction on mail fraud charges stemming from this scheme, the OIG determined that ED had incurred additional losses of more than $230,000 in the form of interest and special allowance payments and for default claims paid on the fraudulent loans. The findings of our investigation were referred to ED for administrative action.

In accordance with the terms of the settlement, IBC has made an initial payment of $36,750 to be followed by 36 monthly payments of $4,406. Failure to comply with the terms of the agreement will result in the termination of IBC's eligibility to participate in Title IV programs.

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## Donnie Sasser

GEORGIA MEDICAL INSTITUTE

*Atlanta, Georgia*

Donnie Sasser, a financial aid director at Georgia Medical Institute, Atlanta, Georgia, was sentenced to one year in prison after pleading guilty to embezzling $114,000 in Federal student aid funds. Sasser was also sentenced to perform 200 hours of community service and ordered to pay full restitution.

Sasser had previously pled guilty to embezzling funds from the Federal Family Education Loan Program. An investigation conducted by the OIG revealed that Sasser embezzled 44 refund checks which were intended to reduce various students' outstanding balances on their student loans.

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## Yeshiva of New Square

*Village of New Square, New York*

This period, the Yeshiva of New Square, a religious corporation operating religious schools in the Village of New Square, New York, paid the United States $1 million to settle a $3.225 million judgment entered against the Yeshiva. In 1995, a U.S. District Court judge imposed $3.255 million in fines against the Yeshiva and other organizations and appointed a Federal receiver to control the Yeshiva's finances. The fines were imposed because of the Yeshiva's failure to comply with Federal grand jury subpoenas calling for the production of financial records.

## ★ Civil Actions ★

### AmSouth Bank of Alabama

*Birmingham, Alabama*

This period, pursuant to a civil fraud settlement reached by the United States Attorney's office, Birmingham, Alabama, and AmSouth Bank, and agreed to by the Department of Education, AmSouth Bank agreed to pay ED a total of $5.7 million in restitution and penalties and withdraw $1.4 million in pending default claims against the Department in settlement of allegations regarding the mishandling of federally guaranteed student loans. An OIG investigation was initiated after AmSouth voluntarily disclosed to Federal officials that its employees falsified collection efforts on insured student loans submitted to ED for default payment. The investigation revealed that AmSouth employees apparently falsified records to show that the required collection efforts had been made on approximately $2.2 million in defaulted student loans, an estimated $1.4 million in pending default claims, and an estimated $1.3 million in future default claims.

The $5.7 million payment by AmSouth included $2.2 million for default payments received by AmSouth; $1.3 million to cover anticipated future defaults for student loans tainted by the falsified collection records; and a civil fraud fine of $2.2 million. AmSouth also agreed to withdraw and never file claims for $1.4 million in pending default claims tainted by false collection efforts.

## ★ Other Investigative Cases ★

### California crime ring

*PLUS loan fraud*

An investigative team consisting of agents from the ED/OIG, the Social Security Administration (SSA)/OIG, the Internal Revenue Service (IRS), the Small Business Administration (SBA), and the Department of Housing and Urban Development, as well as the California State Departments of Justice and Motor Vehicles, has been investigating a criminal enterprise organized to defraud the foregoing agencies' programs. The crime ring is believed to consist of approximately 15 individuals, including both Federal and State employees as well as doctors and tax preparers. The investigation developed evidence that the enterprise defrauded ED by filing more than 30 applications for Federal PLUS loans, using a tax-preparation service as a front.

This period ED, SSA and IRS agents arrested Yolanda Carthon, a 15-year SSA employee. Investigators found evidence that Carthon had accepted cash payments in return for the issuance of fraudulent Social Security cards. Once obtained, the cards were allegedly used to apply for and receive Federal PLUS loans and IRS tax refunds. Also this period, James E. Shead surrendered to U.S. marshals in response to a criminal complaint charging him with bank fraud and Social Security fraud in connection with his involvement in the scheme. During this reporting period, arrest warrants were issued for Clarence Weekes, Ricky Griffin and Beatrice Scott for their alleged part in obtaining fraudulent PLUS loans.

Evidence recovered during the investigation included the fraudulent driver's licenses and Social Security cards, loan applications and other documents used to obtain and cash the PLUS loan checks.

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### Elissa R. Kurland

*Fort Myers, Florida*

Elissa R. Kurland, attorney and former treasurer of the Florida Future Business Leaders of America/Phi Beta Lamda Association and Foundation, Incorporated, pled guilty to one count of false statements and one count of embezzlement. A joint investigation by ED/OIG, IRS and Florida Department of Law Enforcement developed evidence that from May 1993 through June 1995, Kurland embezzled $110,000 from the Florida Future Business Leaders of America/Phi Beta Lamda Association and Foundation, Inc.. Kurland's scheme allegedly involved the altering of payee names on Foundation checks.

The Foundation receives funding from the Department through the Carl D. Perkins Vocational Act as a community-based organization.

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### Cynthia Phillips

NORTHERN INDIANA DEFAULT PROJECT

Cynthia Phillips was sentenced in federal district court, Northern District of Indiana, to three years supervised proba-tion, and was ordered to pay restitution of more than $7,800 to ED. A joint ED/OIG and U.S. Postal Inspection Service investigation found that Phillips received $8,300 in federal Pell and Supplemental Educational Opportunity funds by concealing a prior defaulted student loan.

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### Wanjiru Gathira

*Boston, Massachusetts*

Wanjiru Gathira was sentenced to two years probation and ordered to pay restitution of $38,596 in connection with her fraudulent receipt of Federal Family Education Loans and Federal Work Study funds. Gathira, who was a law student at Suffolk University Law School, Boston, Massachusetts, completed all of her financial aid paperwork to falsely indicate that she was a citizen of the United States when in fact she was a citizen of Kenya. During the time period that Gathira was claiming to be a U.S. citizen on her financial aid applications, she was also applying for asylum in the United States. Officials at Suffolk University Law School did not allow Ms. Gathira to graduate because of the false statements on her financial aid applications, even though she had successfully completed all of the required course work.

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### Olajide Awotona

COLUMBIA TEACHERS COLLEGE

*New York, New York*

Olajide Awotona was sentenced in U.S. District Court, Southern District of New York to six months home confinement and two years probation. Awotona was also ordered to make restitution to the Department in the amount of $14,773. Awotona, a former student at Columbia Teacher's College, pled guilty in March 1996 to two counts of student financial assistance fraud involving failure to disclose prior student loan defaults on FFEL applications.

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## Trend Colleges, Inc.

*Oregon* and *Washington*

Trend Colleges, Inc. (TCI), a proprietary institution with seven locations in Oregon and Washington, ceased operations in August 1994. Just prior to ED's close-out review of TCI, the school received a large drawdown of Title IV funds. At the time, it was suspected that TCI had not returned all Title IV funds to ED upon its closure, as required. In 1995, ED was able to more than $846,000 from TCI and its escrow agent, Perkins & Co., C.P.A. At the time, the $846,000 was believed to represent all Title IV funds in TCI's SFA accounts under control of the escrow agent, although it was suspected that additional federal funds were missing.

The OIG uncovered the missing funds in June 1996 during an interview with a partner of Perkins & Co., escrow agent for TCI. The partner disclosed that in July 1991, as part of its escrow agreement, Perkins & Co. took control of all TCI SFA bank accounts, and that his company still had control of TCI accounts containing Title IV funds amounting to more than $1.44 million. The OIG took action to recover the $1.44 million in Title IV funds and have them returned to ED.

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## Gail Thomas

FEDERAL EMPLOYEE

*New York, New York*

Gail Thomas, a former U.S. Department of Labor (DOL) employee, was arrested in February 1996 for fraudulently obtaining approximately $40,000 from various federally funded entitlement programs, including Aid to Families with Dependent Children, Food Stamps, Public Housing and Pell Grants. In April 1996, in the Southern District of New York, Thomas pled guilty to a one-count felony information charging her with theft of public assistance funds. As part of her plea agreement, Thomas agreed to make restitution to all of the above-mentioned programs, including ED's.

A joint investigation by DOL and ED/OIG developed evidence that Ms. Thomas provided false income information on her Free Application for Student Aid, thereby illegally obtaining approximately $10,000 in Federal SFA funds.

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## Julie M. Marr

BRIGHAM YOUNG UNIVERSITY

*Provo, Utah*

Julie M. Marr, a former Brigham Young University (BYU) employee, was sentenced in U.S. District Court, District of Utah to serve two years probation, fined $1,000 and ordered to pay more than $6,700 in restitution. Marr had previously pled guilty in June 1996 to a one-count information charging her with student aid fraud.

An OIG investigation disclosed that during 1993, Marr applied for and fraudulently received approximately $7,000 in student loan funds. BYU policy allowed a full-time employee to register for up to six hours of classes with no tuition cost. Marr, who worked in BYU's financial services department and whose responsibilities included receiving student loan

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checks from lenders and recording the checks into BYU's computer system, enrolled in classes and submitted four loan applications which were certified by BYU. After each loan application was processed, Marr would withdraw from classes, dropping below half-time status and thus becoming ineligible for the Title IV funds. Marr's position at BYU allowed her to manipulate the computer data and destroy supporting documents used by BYU officials to identify ineligible recipients such as herself.

## ★ UPDATE on Previously Reported Cases ★

### Unilex College

*San Francisco, California*

**THEO KAREN NELSON, owner/president**

**KEITH WATSON, chief financial officer**

Two California attorneys, Keith Watson and Theo Karen Nelson, were sentenced by a Federal judge in Sacramento, California. The two will each serve 4 months in prison followed by 36 months of supervised release, and together must pay $36,950 to ED. Upon release, they will serve six months in a residential community corrections center and provide 100 hours of community service. The two will face proceedings for debarment against practicing law. A joint investigation and audit, with assistance by ED's Internal Review Branch and the California Student Aid Commission, developed evidence that the owners defrauded students by not making proper refunds, retained living-expense money, and embezzled Pell funds for personal use. The investigation resulted in a 10-count indictment.

The owners concealed relevant school business records, fled the State, then used mail drops and false identities to avoid prosecution. When the two were located and served grand jury subpoenas for records, they claimed that all subpoenaed documents had been provided. A year later, during a court hearing related to debt collection actions they had filed against former students to recover funds, an OIG agent observed the owners produce original documents previously subpoenaed by the government. Nelson and Watson also claimed that certain records were stolen in a residential burglary. Later, these records were discovered in their possession during a search executed at their residence after their arrest.

Both Nelson and Watson were board members of ACCET, the school's accrediting agency. (*Semiannual Report No. 32*, page 29)

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### Interamerican Business Institute

*Chicago, Illinois*

**DIEGO AGUIRRE, owner**

Diego Aguirre was issued a superseding indictment in the Northern District of Illinois with three counts of mail fraud and seven counts of student financial assistance fraud. This indictment superseded an earlier indictment from the prior reporting period. Between 1989 and 1992, Aguirre, owner of Interamerican Business Institute (IBI), cashed 232 student loan checks totaling $291,490 which had not been endorsed by IBI students. Investigation showed that most of the students for whom the checks were issued had canceled their enrollment and never attended IBI, or only attended the school for a short time. Aguirre cashed the loan checks for these students without the students' signatures, and converted

the funds for his own use. Aguirre also destroyed the files for these students before he closed the school in 1992, thereby hindering the investigation. (*Semiannual Report No. 32*, page 18)

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## National Education Center, Temple School

*Baltimore, Maryland*

**ARTHUR F. NELSON III, director**

**EDWARD KLEINMAN, admissions director**

**BARBARA TAYLOR, director of finance**

Three former officials of National Education Centers were sentenced in U.S. District Court, Baltimore, Maryland:

- Arthur F. Nelson III was sentenced to 12 months in prison, 4 months of home detention with electronic monitoring, and 2 years of probation, and was ordered to pay a $50 special assessment fee. An OIG investigation developed evidence that Nelson was directly involved in, or was specifically aware of, and approved of, various unlawful and fraudulent activities in the admissions, financial aid, and academic departments at the school. The amount of fraud attributable to his actions was between $500,000 and $800,000. Nelson pleaded guilty to one count of wire fraud in January 1996.
- Edward Kleinman was sentenced to 10 months incarceration, including 5 months home detention. He also received a 2-year supervised release order and was ordered to serve 250 hours of community service, and to pay a $50 special assessment fee and a fine of $5,000, remitting $210 a month over his period of supervised release.
- Barbara Taylor was sentenced to an eight-month split sentence consisting of four months incarceration and four months home confinement, as well as two years supervised release, and was ordered to pay a special assessment fee of $50.

*(Semiannual Report No. 32*, page 23)

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## George I. Conroy

PEABODY, BERKELEY-RIVES

*Owings Mills, Maryland*

George I. Conroy pled guilty in U.S. District Court, District of New Jersey, to a one-count indictment charging him with embezzlement. An OIG investigation developed evidence that Conroy, president of Peabody Berkeley- Rives, Owings Mills, Maryland, embezzled more than $300,000 from five colleges in central North Carolina, from the Department's Title III Strengthening Institutions grant program.

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### Conrad Cortez

*El Paso, Texas*

During this period, Conrad Cortez was sentenced to serve five months in jail, five months in a community facility (half-way house), three years supervised release, make restitution of $61,587 and pay a special assessment of $100. Cortez's sentencing followed a plea agreement with the United States Attorney's Office, El Paso, Texas in which Cortez pled guilty to one count of mail fraud. A joint OIG/U.S. Postal Service investigation developed evidence that Cortez, while posing as a student at a foreign medical school, submitted 30 fraudulent applications for guaranteed student loans, PLUS loans and SLS loans totaling approximately $220,000. The investigation was initiated based upon receipt of an allegation received from the Texas Guaranteed Student Loan Corporation. (*Semiannual Report No. 32*, page 20)

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### Okinaka Ihu

*Memphis, Tennessee*

Okinaka Ihu was found guilty of one count of attempting to use a false, forged, counterfeited or altered passport, three counts of false statements, and one count of student aid fraud. The investigation was predicated upon information from the Immigration and Naturalization Service indicating that Ihu attempted to use a false passport to obtain resident alien status. The investigation further revealed that while claiming to be a United States citizen, Ihu obtained approximately $12,000 from five different universities in Georgia and Tennessee. (*Semiannual Report No. 32*, page 21)

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### Sandra Moorer

*Waco, Texas*

Sandra Moorer was sentenced in U.S. District Court, Waco, Texas, to five years probation, ordered to pay $9,159 in restitution, fined $1,000, and ordered to pay a special assessment fee of $200.

In August 1994, Sandra Moorer signed a pretrial diversion agreement with the United States Attorney's Office, Western District of Texas, Waco, Texas. An OIG investigation found that Moorer had obtained $6,713 in PLUS loan funds by forging the signature of the University of Houston's financial aid director. Moorer was placed on 18 months probation and agreed to pay restitution of $9,719 (principal and interest) in monthly installments, as directed by the pretrial diversion officer, during the period of the program. This period it was discovered that Moorer had only made one restitution payment to United Student Aid Foundation, and that she stopped reporting to Pretrial Services. Because she had failed to comply with the 1994 pretrial diversion agreement, Moorer was indicted on four counts of student financial aid fraud. (*Semiannual Report No. 32*, page 22)

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### Charles Donovan *and* Maureen Donovan

*Boston, Massachusetts*

Charles Donovan was sentenced in U.S. District Court, Boston, Massachusetts, to 37 months incarceration to be followed by 3 years of supervised probation. He was also fined $35,000; ordered to pay restitution of $5,112; and assessed court

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fees of $150. Donovan's sentencing followed his February 5, 1996 guilty plea to racketeering (unlawful extension of credit), bank fraud and credit-card fraud.

In a related case, Donovan's wife, Maureen Donovan, pled guilty to federal financial aid fraud in connection with her attendance at Suffolk University, Boston, Massachusetts. On her financial aid applications, Ms. Donovan stated that she was separated from her husband. She also failed to disclose Mr. Donovan's assets and income which were derived from his racketeering activity. During the time period investigated, Mr. and Mrs. Donovan enjoyed a lavish lifestyle.

Mrs. Donovan was to be sentenced in Boston in early October 1996. Additionally, an evidentiary hearing is upcoming regarding a pending forfeiture action against a 1990 Ferrari owned by Mr. Donovan. (*Semiannual Report No. 32*, page 20)

□ □ □

## Lauren Beauty College

*Parma, Ohio*

**STEPHANIE SMIGELSKI, former president/owner**

Stephanie Smigelski pled guilty to a misdemeanor for "unlawful use of property" in the Cuyahoga County Court of Common Pleas, Cleveland, Ohio, after being charged with grand theft in a one-count indictment. An OIG investigation determined that Smigelski falsified the number of hours students attended the school and thereby obtained $21,105 in Pell Grant funds for students who did not earn enough hours to qualify for a second Pell Grant disbursement. (*Semiannual Report No. 32*, page 17)

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## American Truck Driving School, Inc.

*Waco, Texas*

American Truck Driving School, Inc. (ATDS) was sentenced in United States District Court for the Western District of Texas (Waco Division) and was ordered to pay a fine of $100,000 plus a $200 special assessment fee. No additional restitution was ordered since the judge had previously directed, under a judgment of forfeiture signed in November 1995, that ATDS properties valued at an estimated $2,235,000 were to be forfeited to the United States government. (*Semiannual Report No. 32*, page 27; *Semiannual Report No. 31*, page 25; *Semiannual Report No. 30*, page 28)

□ □ □

## USA Training Academy

*Newark, Delaware*

As a result of a civil action initiated against USA Training Academy, Inc. and its primary shareholder, Robert L. Teeven, the Department of Education has credited $3.6 million to the loan accounts of former students of the school. An additional $2.3 million should be refunded during the next reporting period.

The funds to pay these refunds resulted from an OIG investigation that found fraud and misrepresentations by the school and its owner in the administration of the Title IV program. As part of a civil settlement reached with the Department of Justice, the defendants agreed to liquidate their assets and distribute most of the proceeds to the Department of

Education. The Department agreed to use part of these proceeds to pay refunds due to USA Training Academy students. The Department has received nearly $12 million from the liquidation and expects to recover a total of about $14.4 million by the time the defendants' properties are completely liquidated under a liquidation process specially mandated by the settlement agreement to maximize the return to the United States. (*Semiannual Report No. 32*, page 26)

**Abstract 3**

# INITIATIVES CONDUCTED IN RESPONSE TO CONGRESSIONAL REQUESTS

**(April 1, 1996 - September 30, 1996)**

## Review of the Management Systems and Structure of the U.S. Department of Education, Office of Postsecondary Education, Office of Student Financial Assistance Programs

*Control No. S03-60001 June 10, 1996*

Our review of the management systems and structure of OPE's Office of Student Financial Assistance Programs (SFAP) was performed at the request of the House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunities. Our review focused on management's use of a dedicated special task force separate from OPE management's normal supervisory channels to start up the Federal Direct Loan program. The report contains our observations about the efficiency, consistency and effectiveness of this management practice, and contains four recommendations.

OPE should:

- implement its plans to select SFAP leadership. The leader should be appointed by the Secretary, be a non-political appointee, and possess a combination of requisite skills;
- conduct a comprehensive review of OPE and SFAP human resources, followed by a series of steps to address identified organizational, personnel, management and training needs; and
- establish a reengineering process directed at achieving specific goals, including creating an OPE organizational design and systems that afford the most efficient, effective and economical operations and performance measurement.

We also recommended that the Secretary, Deputy Secretary, Under Secretary, Chief Financial Officer and the OPE leadership team develop and articulate a strategic plan that includes a unified management statement of vision and operating values for OPE and detailed interim steps and performance measures. Our recommendations were developed based on the assumption that reintegration of SFAP and the Direct Loan program would occur before October 1, 1996.

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## Gatekeeping in the Student Financial Assistance Programs

*June 6, 1996*

The Inspector General testified before the House Subcommittee on Human Resources and Intergovernmental Relations, Committee on Government Reform and Oversight, about continuing problems with the gatekeeping process for ensuring that only high-quality schools participate in the Federal student financial assistance programs under Title IV of the Higher Education Act. Focusing on short-term, non-degree-granting, vocational schools, the Inspector General told the Subcommittee that OIG audits found that very few accrediting agencies had adopted quantifiable and objective performance standards for such schools, and that no accrediting agencies used performance standards as enforcement mechanisms to eliminate substandard schools from accreditation and therefore Title IV participation. Rather, the performance standards that exist are treated as mere goals by the accrediting agencies and by the Department of Education. The result is that

students and taxpayers are not always getting their money's worth for the $8.8 billion spent annual on postsecondary vocational training.

The Inspector General advocated that, with respect to the non-degree-granting, vocational trade schools sector, Congress legislate consistent, measurable, objective standards which schools would have to meet in order to be eligible to participate in the student financial assistance programs, particularly in the areas of job placement and student achievement.

# RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

| REPORT NUMBER | AUDITEE/TITLE | DATE RESOLVED | TOTAL MONETARY FINDINGS | SEMIANNUAL REPORT NO. | SEMIANNUAL REPORT PAGE |
|---|---|---|---|---|---|
| | **OFFICE OF ELEMENTARY AND SECONDARY EDUCATION** | | | | |
| *11-20202* | *CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS* | *09/30/94* | *4,382,000* | *26* | *85* |
| | **OFFICE OF POSTSECONDARY EDUCATION** | | | | |
| *11-80160* | *FINANCIAL ANALYSIS CERTIFICATION PROCESS NOT ADEQUATE TO PROTECT STUDENT* | *09/30/90* | *15,026,619* | *19* | *15* |
| *11-90050* | *ACCREDITING AGENCY RECOGNITION PROCESS DOES NOT SERVE AS AN EFFECTIVE CONTROL IN DETERMINING THE RELIABILITY OF AGENCIES THAT ACCREDIT NUMEROUS PROBLEM SCHOOLS* | *06/30/91* | * | *22* | *5* |
| *93-02*** | *ED SHOULD PROHIBIT CONFLICTS OF INTEREST BETWEEN GUARANTY AGENCIES AND AFFILIATED ORGANIZATIONS* | *06/30/93* | * | *26* | *86* |
| *11-00012* | *ADMINISTRATIVE CERTIFICATION PROCESS DOES NOT ADEQUATELY ASSURE THAT ALL SCHOOLS ARE CAPABLE OF ADMINISTERING TITLE IV FUNDS* | *08/31/93* | * | *22* | *7* |
| *11-00010* | *OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS* | *09/30/93* | *33,800,000* | *24* | *63* |
| *11-90040* | *THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS* | *09/30/93* | *482,000* | *22* | *6* |
| *92-05*** | *ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES* | *09/30/93* | *154,000,000* | *24* | *12* |
| *92-10*** | *STRICTER STANDARDS NEEDED FOR GRANTING OF FORBEARANCES* | *09/30/93* | * | *25* | *3* |
| *92-13*** | *ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT* | *01/31/94* | * | *25* | *5* |
| *93-07*** | *THE SECRETARY'S DEFAULT REDUCTION INITIATIVE - AN ALTERNATIVE APPROACH TO IMPLEMENTING SANCTIONS* | *03/31/94* | * | *27* | *18* |
| *05-20075* | *EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS* | *08/31/94* | * | *28* | *19* |
| *17-30302* | *FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992* | *10/31/94* | * | *29* | *16* |
| *11-30001* | *INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES* | *07/31/95* | * | *29* | *15* |
| *04-40100* | *HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED* | *08/31/95* | * | *31* | *11* |
| *17-30305* | *ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS* | *02/29/96* | *5,025,272* | *31* | *14* |
| *11-40001* | *FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS* | *02/29/96* | * | *31* | *13* |
| *05-40005* | *ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS* | *03/31/96* | * | *32* | *10* |



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| REPORT NUMBER | AUDITEE/TITLE | DATE RESOLVED | TOTAL MONETARY FINDINGS | SEMIANNUAL REPORT NO. | PAGE |
|---|---|---|---|---|---|
| | **OFFICE OF THE CHIEF FINANCIAL OFFICER** | | | | |
| *11-00333* | *GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME* | *03/31/94* | *7,500,000* | *26* | *17* |
| *11-48302* | *THE DEPARTMENT COULD REDUCE ITS AIR FARE TRAVEL COSTS IF MORE TRAVELERS TOOK ADVANTAGE OF DISCOUNT AIR FARES* | *01/31/96* | * | *31* | *33* |
| *17-40302* | *FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993* | *08/31/95* | * | *31* | *12* |
| *17-48320* | *FINANCIAL STATEMENT AUDIT OF THE U.S. DEPARTMENT OF EDUCATION WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM* | *09/30/95* | * | *30* | *20* |

* Non-monetary findings only
** Management improvement report

# ED/OIG Reports on Education Department Programs and Activities
## (April 1, 1996 - September 30, 1996)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 19 reports were completed by ED/OIG auditors. These reports are listed below.

| ACN | AUDITEE/REPORT TITLE | STATE | ISSUED | QUESTIONED COSTS (excluding unsupported) | UNSUPPORTED COSTS | BETTER USE OF FUNDS |
|---|---|---|---|---|---|---|
| OFFICE OF POSTSECONDARY EDUCATION | | | | | | |
| 02-50075 | REVIEW OF SELECTED ASPECTS OF EMORY COLLEGE'S ADMINISTRATION OF TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS | PR | JUL-96 | 480 | 13,820 | --- |
| 04-60002 | REVIEW OF POST-DEFAULT CONSOLIDATION LOANS AND RESERVE FUND USES OF THE GEORGIA HIGHER EDUCATION ASSISTANCE CORPORATION | GA | AUG-96 | 1,562,640 | --- | --- |
| 04-60003 | THE TENNESSEE STUDENT ASSISTANCE CORPORATION REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS UNDER THE FEDERAL CONSOLIDATED LOAN PROGRAM | TN | JUN-96 | 1,017,470 | --- | --- |
| 04-60146 | AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY BAUDER COLLEGE | GA | SEP-96 | * | --- | --- |
| 05-50009 | AUDIT OF UNITED STUDENT AID FUNDS, INC.'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | IN | MAY-96 | 19,090,358 | --- | 13,000,000 |
| 05-60003 | CANNELLA SCHOOL OF HAIR DESIGN, CHICAGO, ILLINOIS, AUDIT OF ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS | IL | AUG-96 | 4,408,620 | --- | --- |
| 05-60007 | AUDIT OF DELAWARE HIGHER EDUCATION LOAN PROGRAM'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | DE | MAY-96 | 139,273 | --- | 87,000 |
| 05-60008 | AUDIT OF FINANCE AUTHORITY OF MAINE'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | ME | MAY-96 | 570,790 | --- | 341,000 |
| 05-60011 | AUDIT OF IOWA COLLEGE STUDENT AID COMMISSION'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | IA | JUN-96 | 1,015,855 | --- | 720,000 |
| 06-50010 | THE ELECTRONIC DATA EXCHANGE: A SECURITY REVIEW IS NEEDED | DC | AUG-96 | * | --- | --- |
| 07-50004 | AUDIT OF COLORADO STUDENT LOAN PROGRAM'S ADMINISTRATION AND REPORTING OF DEFAULTED FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | CO | MAY-96 | 162,032 | 587,067 | --- |
| 09-38058 | THE DEPARTMENT SHOULD CONTINUE ITS EFFORTS TO IMPROVE THE ACCURACY OF ITS STUDENT LOAN DATABASE | CA | JUN-96 | * | --- | --- |
| 11-60004 | SUBSEQUENT REVIEW TO FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS | DC | JUN-96 | * | --- | --- |
| 03-60001** | COMING TOGETHER TO FACE THE CHALLENGES OF AN UNCERTAIN FUTURE: A REVIEW OF THE MANAGEMENT SYSTEMS AND STRUCTURE OF THE U.S. DEPARTMENT OF EDUCATION, OFFICE OF POSTSECONDARY EDUCATION, OFFICE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS | DC | JUN-96 | * | --- | --- |

| ACN | AUDITEE/REPORT TITLE | STATE | ISSUED | QUESTIONED COSTS (excluding unsupported) | UNSUPPORTED COSTS | BETTER USE OF FUNDS |
|---|---|---|---|---|---|---|
| **OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES** | | | | | | |
| *04-50201* | *THE TENNESSEE DIVISION OF REHABILITATION SERVICES SHOULD IMPROVE ITS ADMINISTRATION OF ESTABLISHMENT PROJECTS* | *TN* | *SEP-96* | *367,131* | --- | --- |
| *04-60004* | *THE OHIO REHABILITATION SERVICES COMMISSION'S USE OF ESTABLISHMENT PROJECTS AS A SOURCE OF THIRD PARTY FUNDING TO MEET FEDERAL MATCHING REQUIREMENTS MAY NOT BE THE MOST EFFICIENT AND EFFECTIVE METHOD OF DELIVERING SERVICES* | *OH* | *SEP-96* | * | --- | --- |
| *09-53005* | *THE DECLINE IN THE SUCCESS OF CALIFORNIA'S VOCATIONAL REHABILITATION PROGRAM CANNOT BE ATTRIBUTED TO THE REHABILITATION ACT AMENDMENTS OF 1992* | *CA* | *JUL-96* | * | --- | --- |
| **OFFICE OF THE CHIEF FINANCIAL OFFICER** | | | | | | |
| *17-40303* | *THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1995 DEPARTMENT-WIDE FINANCIAL STATEMENTS* | *DC* | *AUG-96* | * | --- | --- |
| *17-60005* | *IMPREST FUND REVIEW* | *DC* | *AUG-96* | * | | |



* Non-monetary findings only
** Management Review (not an audit)

## INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

(Dollars in Thousands)

| | NUMBER | QUESTIONED | UNSUPPORTED [2] |
|---|---|---|---|
| A. For which no management decision has been made by the commencement of the reporting period (as adjusted) | 146 | $ 531,608 | $ 45,823 |
| B. Which were issued during the reporting period | 10 | 28,936 | 601 |
| Subtotals (A + B) | 156 | $ 560,544 | $ 46,424 |
| C. For which a management decision was made during the reporting period | 91 | $ 58,471 | $ 13,028 |
| (i) Dollar value of disallowed costs | | $ 38,127 | $ 608 |
| (ii) Dollar value of costs not disallowed | | $ 20,344 | $ 12,420 |
| D. For which no management decision has been made by the end of the reporting period | 65 | $ 502,073 | $ 33,396 |
| E. For which no management decision was made within six months of issuance | 61 | $ 442,744 | $ 29,617 |

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

## INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

(Dollars in Thousands)

| | NUMBER | DOLLAR VALUE |
|---|---|---|
| A. For which no management decision has been made by the commencement of the reporting period (as adjusted) | 9 | $ 56,139 |
| B. Which were issued during the reporting period | 4 | 14,148 |
| Subtotals (A + B) | 13 | $ 70,287 |
| C. For which a management decision was made during the reporting period | 2 | $ 21,284 |
| (i) Dollar value of recommendations that were agreed to by management | | $ 0 |
| (ii) Dollar value of recommendations that were not agreed to by management | | $ 21,284 |
| D. For which no management decision has been made by the end of the reporting period | 11 | $ 49,003 |
| E. For which no management decision was made within six months of issuance | 0 | $ 34,855 |

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

# UNRESOLVED REPORTS ISSUED PRIOR TO APRIL 1, 1996

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

| REPORT NUMBER | AUDITEE/TITLE | ST | DATE ISSUED | TOTAL MONETARY FINDINGS | REASONS OVERDUE | PROJECTED MANAGEMENT DECISION | SEMIANNUAL REPORT NO. | PAGE NO. |
|---|---|---|---|---|---|---|---|---|
| 07-00027 | SAINT MARY OF THE PLAINS COLLEGE | KS | 09/06/90 | 94,500,000 | 01 | *** | 21 | 6 |
| 03-14078 | SOJOURNER-DOUGLAS COLLEGE | MD | 07/05/91 | 114,206 | 02 | 12/31/96 | ** | --- |
| 03-14079 | SOJOURNER-DOUGLAS COLLEGE | MD | 07/05/91 | 243,300 | 02 | 12/31/96 | ** | --- |
| 03-21069 | SOJOURNER-DOUGLASS COLLEGE | MD | 04/22/92 | 39,354 | 02 | 12/31/96 | ** | --- |
| 03-21068 | SOJOURNER-DOUGLASS COLLEGE | MD | 04/24/92 | 183,920 | 02 | 12/31/96 | ** | --- |
| 09-10007 | WESTERN TRUCK SCHOOL | CA | 09/10/92 | 8,834,503 | 01 | *** | 25 | 78 |
| 07-23545 | MISSOURI STATEWIDE | MO | 04/01/93 | 1,048,768 | 04 | 12/31/96 | ** | --- |
| 05-20007 | AMERICAN CAREER ACADEMY | MI | 05/27/93 | 2,003,658 | 01 | *** | 27 | 17 |
| 05-30003 | PATRIOT EDUCATION CENTER | OH | 09/03/93 | 2,464,884 | 01 | *** | 27 | 17 |
| 09-10005 | CALIFORNIA STUDENT AID COMMISSION | CA | 09/10/93 | 41,100,000 | 01 | 12/31/96 | 27 | 17 |
| 03-20205 | INDEPENDENCE CENTER OF NORTHERN VIRGINIA | VA | 09/17/93 | 173,742 | 04 | 12/31/96 | ** | --- |
| 06-10007 | AVALON VOCATIONAL TECHNICAL INSTITUTE | TX | 09/17/93 | 8,795,000 | 01 | 12/31/96 | 27 | 17 |
| 09-33114 | STATE OF CALIFORNIA | CA | 12/24/93 | 4,191,032 | 01 | 12/31/96 | 28 | 18 |
| 07-33123 | MISSOURI STATEWIDE | MO | 03/07/94 | 187,530 | 04 | 12/31/96 | ** | --- |
| 02-20208 | PUERTO RICO DEPARTMENT OF EDUCATION | PR | 03/10/94 | 17,639,381 | 01 | *** | 28 | 18 |
| 04-33141 | SOUTH CAROLINA STATEWIDE | SC | 07/01/94 | 580,739 | 02 | 12/31/96 | ** | --- |
| 03-33154 | COMMONWEALTH OF PENNSYLVANIA | PA | 07/05/94 | 31,656,831 | 02,03 | 03/31/97 | 29 | 17 |
| 05-30010 | NORTHSTAR GUARANTEE INCORPORATED | MN | 08/16/94 | 619,287 | 01 | 12/31/96 | 29 | 31 |
| 01-30051 | THE STUDENT LOAN CORPORATION MUST IMPROVE ITS CONTROLS OVER FEDERAL INTEREST BILLING | NY | 09/13/94 | 979,000 | 04 | 10/31/96 | 29 | 31 |
| 04-43134 | FLORIDA STATEWIDE | FL | 12/05/94 | 615,996 | 05 | *** | --- | --- |
| 06-20004 | TEXAS GUARANTEED STUDENT LOAN CORPORATION | TX | 01/23/95 | 178,000,000 | 01 | 10/31/96 | 30 | 16,39 |
| 01-46037 | COMMONWEALTH OF MASSACHUSETTS | MA | 02/01/95 | 2,173,536 | 01,03 | 03/31/97 | 30 | 16 |
| 02-56113 | VIRGIN ISLANDS DEPARTMENT OF EDUCATION | VI | 02/17/95 | 10,375,000 | 01 | *** | 30 | 17 |
| 03-30202 | LOOKING AHEAD .. MAKING THE MOST OF EVALUATIONS-- A REVIEW OF THE U.S. DEPARTMENT OF EDUCATION'S PLANNING & EVALUATION SERVICE | DC | 03/14/95 | * | 01 | 10/31/96 | 30 | 19,39 |
| 10-43931 | STATE OF WASHINGTON | WA | 05/30/95 | 26,657 | 05 | *** | ** | --- |
| 05-40007 | REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION | MN | 06/02/95 | * | 02,04 | 11/30/96 | ** | --- |
| 03-47090 | COMMONWEALTH OF PENNSYLVANIA | PA | 07/20/95 | 50,689,820 | 02,03 | 03/31/97 | ** | --- |
| 04-56619 | TRENHOLM STATE TECHNICAL COLLEGE | AL | 08/23/95 | 813,824 | 02,04 | *** | ** | --- |
| 05-53012 | ILLINOIS STATE DEPARTMENT OF REHABILITATION | IL | 09/07/95 | 5,016,685 | 03 | 12/31/96 | 31 | 12 |
| 01-33139 | STATE OF MAINE | ME | 09/08/95 | 639,686 | *** | | ** | --- |
| 01-56045 | STATE OF MAINE | ME | 09/08/95 | 324,757 | 02 | 01/31/97 | ** | --- |
| 09-38259 | THE DEPARTMENT SHOULD EVALUATE THE NEED FOR ANNUAL CHILD COUNTS IN THE IMPACT AID PROGRAM | CA | 09/12/95 | * | 01 | *** | ** | --- |



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| REPORT NUMBER | AUDITEE/TITLE | ST | DATE ISSUED | TOTAL MONETARY FINDINGS | REASONS OVERDUE | PROJECTED MANAGEMENT DECISION | SEMIANNUAL REPORT NO. | PAGE NO. |
|---|---|---|---|---|---|---|---|---|
| 02-40200 | NEW YORK STATE DEPARTMENT OF EDUCATION | NY | 09/27/95 | * | 01 | 10/31/96 | ** | --- |
| 10-53726 | STATE OF WASHINGTON | WA | 09/29/95 | 273,259 | 05 | *** | ** | --- |
| 04-53670 | FLORIDA STATEWIDE | FL | 10/04/95 | 2,855,402 | 01 | 12/31/96 | ** | --- |
| 04-43154 | TENNESSEE STATEWEIDE | TN | 10/05/95 | 976,078 | 02,03 | 03/31/97 | ** | --- |
| 05-50002 | AUDIT OF GREAT LAKES HIGHER EDUCATION CORPORATION'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAMS, LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM | WI | 11/08/95 | 1,462,000 | 01 | 12/31/96 | 11 | 32 |
| 05-50004 | AUDIT OF ILLINOIS STUDENT ASSISTANCE COMMISSION'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM, LOANS CONSOLIDATED UNDER THE CONSOLIDATION LOAN PROGRAM | IL | 11/09/95 | 445,777 | 01 | 12/31/96 | 11 | 32 |
| 03-56224 | APPLACHIAN CENTER FOR INDEPENDENT LIVING INC. | WV | 12/04/95 | 57,757 | 01 | 12/31/96 | ** | --- |
| 03-56016 | INTERNATIONAL MASONARY INSTITUTE | DC | 12/12/95 | * | 01 | 10/31/96 | ** | --- |
| 03-56048 | STATE OF WEST VIRGINIA | WV | 12/12/95 | 10,234 | 02 | 12/31/96 | ** | --- |
| 03-56261 | INTERNATIONAL MASONARY INSTITUTE | DC | 12/12/95 | * | 01 | 10/31/96 | ** | --- |
| 02-56225 | NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION | NY | 12/15/95 | * | 04 | 10/31/96 | ** | --- |
| 02-56226 | NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION | NY | 12/15/95 | * | 04 | 10/31/96 | ** | --- |
| 03-56293 | STATE SYSTEM OF HIGHER EDUCATION, COMMONWEALTH OF PENNSYLVANIA | PA | 12/17/95 | 42,798 | 01 | 12/31/96 | ** | --- |
| 02-56108 | COMMONWEALTH OF PUERTO RICO | PR | 12/27/95 | 4,341,116 | 04 | 12/31/96 | ** | --- |
| 01-46005 | STATE OF MAINE | ME | 01/11/96 | 277,196 | 01 | 03/31/97 | ** | --- |
| 01-56095 | NEW HAMPSHIRE HIGHER EDUCATION ASSISTANCE FOUNDATION | NH | 01/18/96 | 6,196 | 01 | 10/31/96 | 13 | 32 |
| 06-40004 | THE ESCROW PROCESS - A POTENTIALLY EFFECTIVE TOOL FOR SAFEGUARDING TITLE IV FUNDS | DC | 01/29/96 | * | 01 | 11/30/96 | 13 | 32 |
| 07-58051 | OPE'S WAIVER-THE DEPARTMENT SHOULD ESTABLISH AND FOLLOW A PROCESS | DC | 02/13/96 | * | 02,04 | 11/30/96 | ** | --- |
| 03-50451 | ASSOCIATE CONSULTANT | DC | 02/27/96 | 20,647 | *** | | ** | --- |
| 01-56088 | COMMONWEALTH OF MASSACHUSETTS | MA | 02/28/96 | 80,729 | 02 | 12/31/96 | ** | --- |
| 01-56097 | STATE OF RHODE ISLAND | RI | 02/28/96 | 51,321 | 01 | 11/30/96 | ** | --- |
| 03-56311 | STATE OF DELAWARE | DE | 02/28/96 | 10,704 | 01 | 03/31/97 | ** | --- |
| 03-36705 | PENNSYLVANIA SYSTEM OF HIGHER EDUCATION | PA | 03/06/96 | 308,598 | 02 | 10/31/96 | ** | --- |
| 02-36678 | NEW YORK COLLEGE OF PODIATRIC MEDICINE | NY | 03/08/96 | 12,190 | 02 | 12/31/96 | ** | --- |
| 01-56107 | UNIVERSITY OF MASSACHUSETTS | MA | 03/11/96 | 142,610 | 02 | 12/31/96 | ** | --- |
| 01-33140 | STATE OF CONNECTICUT | CT | 03/15/96 | 1,626,972 | 02 | 12/31/96 | ** | --- |
| 01-46083 | STATE OF CONNECTICUT | CT | 03/15/96 | 353,810 | 01 | 12/31/96 | ** | --- |
| 01-56043 | NEW HAMPSHIRE STATE | NH | 03/15/96 | 212,086 | 02,03 | 03/31/97 | ** | --- |
| 02-50202 | NEW JERSEY VOCATIONAL REHABILITATION SERVICE | NJ | 03/15/96 | * | 03 | 12/31/96 | 8 | 32 |

* Non-monetary findings only

** Not individually written up

*** Information not provided by POC

**REASON CODES FOR REPORTS MORE THAN SIX MONTHS OLD**

01 - Administrative delays

02 - Delay in receiving auditee comments or additional information from auditee

03 - Delay in receiving additional information from non-Federal auditor

04 - Lack of staff

05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot State

# STATISTICAL SUMMARY

## October 1, 1995 — September 30, 1996

M = million
K = thousand

| | Six-Month Period Ending 9/30/96 | Fiscal Year Ending 9/30/96 |
|---|---|---|
| **OIG AUDIT REPORTS ISSUED** | 19 | 34 |
| - Questioned Costs | $ 28.3 M | $ 29.8 M |
| - Unsupported Costs | $ 0.6 M | $ 0.6 M |
| - Recommendations for Better Use of Funds | $ 14.1 M | $ 14.5 M |
| **NON-FEDERAL AUDIT REPORTS ISSUED** | 0 | 411 |
| - Questioned Costs | $ 0 | $ 4.0 M |
| - Unsupported Costs | $ 0 | $ 19.2 M |
| **OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS** | 15 | 30 |
| - Questioned Costs Sustained. | $ 36.6 M | $ 52.1 M |
| - Unsupported Costs Sustained | $ 0.2 M | $ 1.8 M |
| - Additional Disallowances Identified by Program Managers | $ 0 | $ 3.0 M |
| - Management Commitment to Better Use of Funds | $ 0 | $ 7.0 M |
| **NON-FEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS** | 127 | 527 |
| - Questioned Costs Sustained. | $ 0.9 M | $ 4.7 M |
| - Unsupported Costs Sustained | $ 0.4 M | $ 2.0 M |
| - Additional Disallowances Identified by Program Managers | $ 2.7 M | $ 7.5 M |
| **MANAGEMENT IMPROVEMENT REPORTS** | | |
| - Reports Issued | 0 | 0 |
| - Reports Resolved by Program Managers | 0 | 0 |
| **INVESTIGATIVE CASE ACTIVITY** | | |
| - Cases Opened | 92 | 153 |
| - Cases Closed | 84 | 227 |
| - Cases Active at End of Period | 306 | 621 |
| - Cases Referred for Prosecution | 26 | 57 |
| - Accepted | 14[1] | 36[2] |
| - Declined | 34 | 53 |

[1] *Includes 2 cases accepted for civil prosecution.*

[2] *Includes 5 cases accepted for civil prosecution.*

# STATISTICAL SUMMARY

*(continued)*

| | Six-Month Period Ending 9/30/96 | Fiscal Year Ending 9/30/96 |
|---|---|---|
| **INVESTIGATION RESULTS** | | |
| - Indictments/Informations | 25[3] | 52 |
| - Convictions/Pleas | 26[4] | 58 |
| - Fines Ordered | $ 142.9 K | $ 626.8 K |
| - Restitutions Ordered | $ 514.1 K | $ 1.7 M |
| - Restitution Payments Collected | $ 169.7 K | $ 264.1 K |
| - Civil Settlements | $ 6.8 M | $ 6.8 M |
| - Civil Judgment | $ 7.7 K | $ 7.7 K |
| - Recoveries | $ 1.4 M | $ 1.4 M |
| - Forfeitures/Seizures | $ 0.2 M | $ 2.4 M |
| **DEBARMENT/SUSPENSION ACTIVITIES** | | |
| - OIG Requests for Departmental Action | 20 | 37 |
| - Individuals/Entities Debarred | 15 | 16 |
| - Individuals/Entities Suspended | 8 | 8 |

[3] *Includes 5 actions that were not reported in our last* Semiannual Report.

[4] *Includes 2 actions that were not reported in our last* Semiannual Report.

# GLOSSARY OF ABBREVIATIONS

| | |
|---|---|
| *ACN* | audit control number |
| *AICPA* | American Institute of Certified Public Accountants |
| *CAROI* | Cooperative Audit Resolution and Oversight Initiative |
| *CFO* | Chief Financial Officer |
| *DOJ* | Department of Justice |
| *ED* | U.S. Department of Education |
| *ESEA* | Elementary and Secondary Education Act |
| *FBI* | Federal Bureau of Investigation |
| *FCL* | Federal Consolidated Loan |
| *FFEL* | Federal Family Education Loan (program) |
| *FY* | fiscal year |
| *GAO* | General Accounting Office |
| *GED* | general equivalency degree |
| *GMRA* | Government Management Reform Act |
| *IPA* | independent public accountant |
| *K* | thousand |
| *M* | million |
| *MOU* | Memorandum of Understanding |

## GLOSSARY OF ABBREVIATIONS
*(continued)*

| | |
|---|---|
| ***OESE*** | Office of Elementary and Secondary Education |
| ***OIG*** | Office of Inspector General |
| ***OMB*** | Office of Management and Budget |
| ***OPE*** | Office of Postsecondary Education |
| ***PCIE*** | President's Council on Integrity and Efficiency |
| ***POC*** | Principal Operating Component |
| ***SEOG*** | supplemental educational opportunity grant |
| ***SFA*** | student financial assistance/student aid |
| ***SFAP*** | (Office of) Student Financial Assistance Programs |
| ***ST*** | State |

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**Office of Inspector General**
**U.S. Department of Education**
**600 Independence Avenue, SW**
**Washington, DC 20202-1510**

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| Philadelphia, PA | (215) 596-1021 |
| Atlanta, GA | (404) 331-2087 |
| Chicago, IL | (312) 353-7891 |
| Dallas, TX | (214) 767-3361 |
| Kansas City, MO | (816) 891-7958 |
| Denver, CO | (303) 844-4517 |
| San Francisco, CA | (415) 556-6726 |
| Seattle, WA | (206) 220-7876 |

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| ___ACN 04-60002 | ___ACN 05-60007 | ___ACN 09-53005 |
| ___ACN 04-60003 | ___ACN 05-60008 | ___ACN 17-40303 |
| ___ACN 04-60004 | ___ACN 05-60011 | ___S 03-60001 |
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